

**Testimony of  
Cynthia Eichman, Chief Executive Officer  
Victory Medical Center, Stanley, WI**

**Governor's Listening Session on Health Care Costs  
September 24, 2002  
Eau Claire, Wisconsin**

**Factors that Increase Health Care Costs**

Employers, consumers and elected officials are becoming increasingly concerned as insurance premiums in Wisconsin continue to increase at double-digit rates. The hospital industry in Wisconsin is also concerned about these large increases since we employ many thousands of individuals across the state, and rising health insurance costs have a significant impact on our budgets as it does for all employers.

Undoubtedly, you've heard a lot of testimony at the 5 listening sessions that have been held so far about the causes of the health care cost problem. Certainly, those that have testified before me have discussed such things as:

- 1) The impact of the aging population on the demand for health care;
- 2) The high cost of new medical technology;
- 3) The cost of new pharmaceuticals;
- 4) The health care workforce shortage;
- 5) The impact of unhealthy lifestyles (i.e. smoking and obesity) on health care costs;
- 6) The large number of uninsured individuals; and,
- 7) The high cost of medical liability insurance.

I agree that all of these factors contribute greatly to the rising cost of health care. And, each of these factors must be part of a comprehensive solution.

I would like to add to this debate, however, that from a hospital CEO's perspective the biggest reason that health insurance costs in Wisconsin are increasing at double-digit rates is the underpayment of Medicare to providers in our state. As you know, this shortfall results in cost shifting to commercial payers, further exacerbating the cost crisis.

**The Medicare Formula**

Two major factors in the federal Medicare formula are causing this shortfall to Wisconsin and other rural states:

1. Medicare Base Payment Rate - Medicare payments for inpatient hospital services (DRGs) are based on a standard national rate that is adjusted to reflect local wage differences (using a wage index) and which takes into account the severity of the illness. However, large metropolitan areas (with populations over 1 million) receive a 1.6% higher base rate than all other areas of the country. Since local cost differences are already accounted for with the average wage index, and no data exists to justify other cost differences, the 1.6% higher rate penalizes most Wisconsin hospitals because of their geographic location. Equalizing this payment amount would add an estimated \$18 million annually in higher payments to Wisconsin hospitals.

2. Medicare Wage Index - The wage index is the factor that has the greatest impact on payment differences around the country. The biggest flaw in the wage index is that it is applied to too much of the inpatient hospital service payment. The portion of costs that the adjustment factor is applied to is 71%, while wages comprise a much lower percentage of costs in the typical hospital. (In Wisconsin, wages comprise roughly 55% of the cost of hospital services.) By applying the area wage index to an inappropriately high percentage of costs, the Medicare program is underpaying hospitals with lower indexes. Because Wisconsin's area wage index is low, compared to New York or California, our hospitals receive lower payments than they should. Typically, this means several hundred dollars of underpayment for each Medicare admission, or over \$15 million annually for Wisconsin hospitals.

### **Solutions to the Medicare Underpayment Problem**

I would like to ask the Governor and his administration to join Victory Medical Center and other providers in the state in our current and future efforts to support Congressional initiatives that focus on equalizing Medicare payments.

Here is a brief legislative update:

In July of this year, the U.S. House of Representatives passed the Medicare Modernization Act (H.R. 4954) which would significantly improve Medicare payments to Wisconsin hospitals. The bill includes the following provisions:

1. It eliminates the 1.6% base rate differential between large urban areas and all other areas of the country. As I mentioned earlier, this provision, if adopted, would add an estimated \$18 million annually in Medicare payments to Wisconsin hospitals.
2. It extends cost-based reimbursement to Critical Access Hospitals (CAH) for pre and post acute care services, and expands the CAH designation to hospitals with 25 or fewer acute care beds. These provisions would also bring additional Medicare dollars to Wisconsin hospitals.

3. It provides a 5% inpatient payment increase (on top of other scheduled changes) for each of the next three years for hospitals located in certain non-metropolitan areas in certain states with negative inpatient Medicare margins. Wisconsin is one of 8 mid-western states that would qualify for this 5% bonus which will return \$60 million annually to Wisconsin Hospitals.

Comparable legislation must now be considered and passed in the U.S. Senate. We must ask our two Wisconsin Senators, Kohl and Feingold, to actively work to bring such legislation to a floor vote. The current session will end in October. With many large issues still before them, we must urge the Senate to make this bill a priority. It is essential to health care in Wisconsin that these provisions be enacted into law in the FY2003 budget.

I urge all of us here today to work on getting this bill passed...by writing letters, making phone calls and sending E-mails to both Senator Feingold and Senator Kohl. If we work together, we can make it happen.